This is a statement for the record in reference to the September 20, 2012 hearing: "Tax Reform and Treatment of Capital Gains" submitted by Ken Tomcich, EA, MBA (KLT Services, LLC) 6411 N 16th St, Arlington, Virginia 22205; 703 532-3723.

I agree with Mr. Stanfill, tax reform should include taxing all income alike. As an independent self-employed tax preparer, since 1980 I have been preparing over 100 tax returns a year, mostly personal (Form 1040) tax returns for individuals needing assistance reporting matters such as a business (Schedule C), capital gains, (Schedule D), rental income (Schedule E), other unearned income such as interest (Schedule B), pass-through income from Schedule K-1s and other complexities requiring professional tax preparation assistance. I also prepare returns for small corporations and nonprofits.

As a member of the National Association of Enrolled Agents, I have been advocating the need for tax stability; people cannot do long range business planning facing legislated short term tax law adjustments. It takes long term planning to focus on expanding a business with new hiring and investment. Short term tax code fixes tend to further confuse those who do not understand tax law and frustrates those who do. It is time to put partisan and special interests aside. Legislators need to show political courage to work with, and listen to, tax and business professionals to stabilize tax code.

Capital gains tax is a tax on the gain from sale of a capital (income producing) asset. Businesses do not sell their income producing assets when they plan to stay in business. When a business expands, it generally trades-in the old capital assets for new, or simply disposes them if they are worn out or obsolete, with no capital gain, therefore no capital gains tax. Dividends from qualified stock (held more than one year to qualify as a capital asset) is an exception to capital gains tax rules that perhaps gets the most attention since it provides a very visible source of reinvestment capital. But the investment of a capital gain has no different impact on capital investment than investment of any other type of income: income from wages, interest, rent, net self-employment income, awards or other types of non-earned income. Income in excess of immediate personal or business needs becomes investment capital. The gain from the sale of a capital (income producing) asset remains income like any other income and needs to be taxed accordingly. Special tax code provisions to address capital gains as something different, from other investment capital, simply adds to tax complexity. In the interest of tax stability, all taxable income should be taxed at the same scalable rates.

In a move to taxing consumption, as opposed to income, a value added tax (VAT) would help U.S. produced goods compete with foreign produced goods where countries use the VAT as a tariff substitute; imposing a VAT on imports (making the cost of imported goods higher) and providing a VAT credit for goods exported (making exports cheaper). It is time to level the import/export playing field with a U.S. VAT to help offset tax on incomes at the subsistence, as well as mid capital investment, levels to encourage U.S. job growth. I will submit that too much of the top level capital investment flows to foreign developing economies (where promise of return on investment is greater) thereby further eroding the U.S. income tax base.

Submitted By: Ken Tomcich September 25, 2012